

CITY OF NATIONAL CITY
TRANSPORTATION DEVELOPMENT ACT FUNDS

Annual Financial Report of the Transportation
Development Act ("TDA") Funds- Article 4

For the Year Ended June 30, 2005

CITY OF NATIONAL CITY
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To the Board of Directors
San Diego Association of Governments
San Diego, California

Independent Auditors' Report

We have audited the TDA funds financial statements of the Article 4 Transportation Development Act ("TDA") funds administered and disbursed by the City of National City, California (the "City") as of June 30, 2005 and the related statements of revenues, expenses and changes in financial position and cash flows for the year then ended. These TDA funds financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these TDA funds financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the TDA funds financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the TDA funds financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the TDA funds financial statements present only the TDA funds referred to in the first paragraph and are not intended to present the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the TDA funds financial statements referred to above present fairly, in all material respects, the financial position of the aforementioned TDA funds of the City as of June 30, 2005 and the results of operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2005 on our consideration of the City's internal control structure over TDA funds financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters governing TDA funds. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.

December 21, 2005

CITY OF NATIONAL CITY

Transportation Development Act Funds - Article 4

Balance Sheet

June 30, 2005

Assets

Current assets:

| | |
|-------------------------------|----------------|
| Cash and investments (note 2) | \$ 157,392 |
| Accounts receivable | 4,325 |
| Due from other governments | 44,201 |
| Prepaid expenses | 103,308 |
| Inventory | <u>139,434</u> |
| Total current assets | <u>448,660</u> |

Capital assets:

| | |
|---------------------------|------------------|
| Land | 900,000 |
| Building and improvements | 1,997,630 |
| Automotive equipment | 4,661,258 |
| Equipment | <u>305,439</u> |
| Total capital assets | <u>7,864,327</u> |

| | |
|-------------------------------|--------------------|
| Less accumulated depreciation | <u>(2,373,160)</u> |
|-------------------------------|--------------------|

| | |
|---------------------------|------------------|
| Total capital assets, net | <u>5,491,167</u> |
|---------------------------|------------------|

| | |
|--------------|------------------|
| Total assets | <u>5,939,827</u> |
|--------------|------------------|

Liabilities and Net Assets

Liabilities:

| | |
|----------------------------------|----------------|
| Accounts payable | 171,426 |
| Accrued expenses | 22,621 |
| Compensated absences | 42,708 |
| Due to the City of National City | <u>238,486</u> |
| Total liabilities | <u>475,241</u> |

Net assets:

| | |
|---|---------------------|
| Invested in capital assets, net of accumulated depreciation | 5,491,167 |
| Unrestricted net assets | <u>(26,581)</u> |
| Total net assets | <u>\$ 5,464,586</u> |

See accompanying notes to the financial statements.

CITY OF NATIONAL CITY
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Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2005

| | |
|--|----------------------------|
| Operating revenues: | |
| Passenger fares | \$ 1,170,795 |
| Total operating revenues | <u>1,170,795</u> |
| Operating expenses: | |
| Personnel services | 1,422,460 |
| Maintenance and operation | 877,934 |
| Insurance | 317,277 |
| Depreciation | <u>483,136</u> |
| Total operating expenses | <u>3,100,807</u> |
| Operating income (loss) | <u>(1,930,012)</u> |
| Nonoperating revenues (expenses): | |
| Local transportation funds | 1,307,972 |
| Investment income | <u>7,215</u> |
| Total nonoperating revenues (expenses) | <u>1,315,187</u> |
| Income (loss) before contributions | (614,825) |
| Capital contributions | <u>52,137</u> |
| Change in net assets | (562,688) |
| Net assets at beginning of year | <u>6,027,274</u> |
| Net assets at end of year | <u><u>\$ 5,464,586</u></u> |

See accompanying notes to financial statements.

CITY OF NATIONAL CITY

Transportation Development Act Funds - Article 4

Statement of Cash Flows

Year ended June 30, 2005

| | |
|--|------------------------------|
| Cash flows from operating activities: | |
| Cash received from customers and users | \$ 1,170,795 |
| Cash paid to suppliers | (1,303,247) |
| Cash paid to employees | <u>(1,422,460)</u> |
| Net cash used for operating activities | <u>(1,554,912)</u> |
| Cash flows from investing activities: | |
| Interest received | <u>7,964</u> |
| Net cash provided by investing activities | <u>7,964</u> |
| Cash flows from non-capital financing activities: | |
| Operating grants | 1,307,972 |
| Cash received from other funds | <u>238,486</u> |
| Net cash provided by non-capital financing activities | <u>1,546,458</u> |
| Net increase (decrease) in cash and investments | (490) |
| Cash and investments, beginning of year | <u>157,882</u> |
| Cash and investments, end of year | <u><u>\$ 157,392</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income (loss) | <u><u>\$ (1,930,012)</u></u> |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Depreciation | 483,136 |
| Accounts receivable | 542 |
| Due from other governments | 47,178 |
| Prepaid expenses | (68,584) |
| Inventory | (118,810) |
| Accounts payable and accrued expenses | 29,142 |
| Compensated absences | <u>2,496</u> |
| Total adjustments | <u>375,100</u> |
| Net cash provided by operating activities | <u><u>\$ (1,554,912)</u></u> |
| <u>Noncash investing, capital and financing activities</u> | |
| Capital contributions | 52,137 |

See accompanying notes to the financial statements.

CITY OF NATIONAL CITY

Transportation Development Act Funds- Article 4

Notes to Financial Statements

Year ended June 30, 2005

(1) Summary of Significant Accounting Policies

The Reporting Entity

The TDA funds financial statements are intended to present the financial position and results of operations and cash flows of only those transactions attributable to the Article 4 - Transportation Development Act ("TDA") funds administered and disbursed by the City of National City, California (the "City").

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, net assets, revenues and expenses, as appropriate. Government resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The funds represented in the TDA funds financial statements are maintained in the Proprietary Fund category of accounts, which is considered to be of the Enterprise Fund type. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the TDA funds financial statements.

Enterprise funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and their expenses are recognized when they are incurred.

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Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Allocations of Article 4 local transportation funds are voluntary nonexchange transactions received from other governments that are not in the form of reimbursement grants. The entitlement of the recipient government for the receipt of these funds is not based upon the recipient government first incurring allowable expenses. These amounts are recorded as revenue when the recipient government becomes entitled to the allocation (i.e., the amounts can be accessed without further qualification or approval by the party holding the funds on behalf of the recipient government). If the amounts currently accessible to the recipient government are held by another party, these amounts would be recognized as revenue and an asset (e.g., deposits, etc.) when the recipient government has met all of the conditions entitling it to the funds. Deferred revenue is not recorded in either the fund financial statements or in the government-wide financial statements for receipt of allocations prior to the recording of related expenses. In some cases the amounts not spent within a specified number of years (the *spending period*) must be returned to the providing agency. The requirement to return unspent funds within the spending period is not considered to be a requirement pertaining to the eligibility of funding and does not effect the recognition of revenue for this funding. This is because there is no requirement to spend the allocated resources in specific amounts or proportions for each of the fiscal years covered by the spending period. The entire allocation may be spent in any of the fiscal years covered by the spending period. Any amounts returned at the end of the spending period are required by generally accepted accounting principles to be recorded at that time as an *expense*.

(2) Cash and Investments

Cash and investments of the TDA at June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:

| | |
|----------------------------|------------------|
| Cash and investments | <u>\$157,392</u> |
| Total cash and investments | <u>\$157,392</u> |

Cash and investments at June 30, 2005 consist of the following:

| | |
|--|------------------|
| Investment in the City of National City's pooled cash and investments | <u>\$157,392</u> |
| Total cash and investments | <u>\$157,392</u> |

CITY OF NATIONAL CITY

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Notes to Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City of National City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk.

| <u>Investment Types Authorized by State Law</u> | <u>Authorized By Investment Policy</u> | <u>*Maximum Maturity</u> | <u>*Maximum Percentage Of Portfolio</u> | <u>*Maximum Investment in One Issuer</u> |
|---|--|------------------------------|---|--|
| Local Agency Bonds | Yes | 5 years | None | None |
| U.S. Treasury Obligations | Yes | 5 years | None | None |
| U.S. Agency Securities | Yes | 5 years | None | None |
| Banker's Acceptances | Yes | 180 days | 40% | 30% |
| Commercial Paper | Yes | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | Yes | 5 years | 30% | None |
| Repurchase Agreements | Yes | 1 year | None | None |
| Reverse Repurchase Agreements | Yes | 92 days | 20% of base value | None |
| Medium-Term Notes | Yes | 5 years | 30% | None |
| Mutual Funds | Yes | N/A | 15% | 10% |
| Money Market Mutual Funds | Yes | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | Yes | 5 years | 20% | None |
| County Pooled Investment Funds | Yes | N/A | None | None |
| Local Agency Investment Fund (LAIF) | Yes | N/A | None | None |
| JPA Pools (other investment pools) | Yes | N/A | None | None |

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

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Notes to Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided in the City of National City's Comprehensive Annual Financial Report.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The minimum rating required by the California Government Code or the City's investment policy and the actual rating as of year end for each investment type is presented in the City of National City's Comprehensive Annual Financial Report.

The TDA had no investments at June 30, 2005.

The cash resources of the TDA funds are combined in the City's checking and savings accounts and in the City's pooled investments. Pooled cash and investment are stated at fair value at June 30, 2005.

Investment policies and associated risk factors applicable to the TDA's funds are those of the City of National City and are included in Note 2 of the City's Comprehensive Annual Financial Report.

To the Board of Directors
San Diego Association of Governments
San Diego, California

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

We have audited the TDA Fund financial statements of the Article 4 Transportation Development Act ("TDA") funds administered and disbursed by the City of National City, California (the "City") as of and for the year ended June 30, 2005 and have issued our report thereon dated December 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the TDA Fund financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's TDA Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the requirements governing the TDA funds as described in Sections 6666 and 6667 of Subchapter 2, Article 5.5 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
San Diego Association of Governments
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This report is intended solely for the information of the City Council, City management, the San Diego Association of Governments and the State Controller's office and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

December 21, 2005